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CORPORATION FILE

GRAY DRUG STORES, INC.

NOTICE OF ANNUAL AND SPECIAL MEETING

Including

PROXY STATEMENT

Notice is hereby given that the annual meeting of shareholders of Gray Drug Stores, Inc. will be held at 2400 Superior Avenue, Cleveland, Ohio, on Tuesday, September 25, 1951, at 10 o'clock a.m., for the purpose of fixing the number of and electing directors for the ensuing year and transacting such other business as may properly come before the meeting.

The above meeting will also be held as a special meeting for the purpose of considering and acting upon a proposal to amend the Corporation's Articles of Incorporation so as to change its Common Stock from shares without par value to shares having a par value of $1 each (and eliminate the provision relating to the fixing of consideration for the issuance of shares without par value). At such special meeting any and all other matters necessary or incidental to said proposal may be authorized, including the adoption and filing of Amended Articles of Incorporation in lieu of the adoption and filing of amendments to the Articles of Incorporation.

Shareholders of record at the close of business on September 6, 1951 are entitled to vote at the meeting.

Please execute and return promptly the enclosed proxy whether or not you expect to attend the meeting.

Election of Directors

At the present time it is intended that proxies which contain no instructions to the contrary will be voted in favor of fixing the number of directors at six, and for the election of the following persons as directors of the Corporation for the ensuing year and until their successors are elected and qualified: C. W. Evans, Henry Gray, C. B. Merrill, Geo. F. Pryor, J. W. Reavis and Adolph Weinberger. All of these nominees except J. W. Reavis were elected as directors at the last annual meeting. Mr. Reavis has since 1927 been a member of the law firm of Jones, Day, Cockley & Reavis and predecessor firms.

Further information regarding the nominees (including information furnished by them as to beneficial ownership of securities of the Corporation) is as follows:

Name	Principal Occupation or Employment	Period of Service as Director	Shares of Common Stock owned beneficially as of August 8, 1951
C. W. Evans	Executive Vice President of the Corporation	1945-1951	648
Henry Gray	Vice President of the Corporation	1945-1951	1,339
C. B. Merrill	President of Merrill, Turben & Co. (investment banking) (1)	1945-1951	None
Geo. F. Pryor	Vice President of The Cleveland Trust Company (banking) (1)	1950-1951	450
J. W. Reavis	Lawyer—Member of Jones, Day, Cockley & Reavis	None	500
Adolph Weinberger	President of the Corporation	1928-1951	25,723(2)

(1) On May 21, 1951, the Corporation borrowed $1,200,000 from New England Mutual Life Insurance Company and $300,000 from The Cleveland Trust Company, using the proceeds largely to retire approximately $1,000,000 of existing indebtedness to New England Mutual Life Insurance Company and approximately $150,000 of existing indebtedness to The Cleveland Trust Company. For services in connection with negotiating the loan from New England Mutual Life Insurance Company, the Corporation paid a commission of $1,500 to Merrill, Turben & Co.

(2) These holdings represent approximately 18.35% of the outstanding Common Stock of the Corporation. In addition, as of August 8, 1951, 8,505 shares were owned of record or beneficially by associates of Mr. Weinberger, including 6,496 shares owned beneficially by Mr. Weinberger's wife, Mrs. Minnie Weinberger.

Financial and other reports will be submitted to the meeting and minutes of previous meetings of shareholders and directors will be made available for inspection by shareholders present at the meeting, but it is not intended that any action will be taken in respect thereof. It is not anticipated that matters other than those referred to above will be brought before the meeting for action, but if any such other matters should be brought before the meeting it is intended that the persons appointed as proxies may vote or act thereon according to their judgment.

Remuneration of Directors and Officers

The following table sets forth the amounts paid or set aside by the Corporation for the fiscal year ended June 30, 1951 to or for the benefit of (1) Adolph Weinberger and C. W. Evans (the only officers who received remuneration in excess of $25,000) and (2) all directors and officers as a group:

	Salaries—Fees	Profit Sharing Payments	Amount Paid into Employees' Pension Fund (1)
Adolph Weinberger, President	$ 35,000.00	None	$ 6,113.50
C. W. Evans, Executive Vice President	20,000.00	$ 5,020.27	2,125.32
All directors and officers as a group	108,325.00(2)	24,787.76	12,208.05

(1) The annual benefits estimated to be payable to Adolph Weinberger and C. W. Evans under the Employees' Pension Fund Plan, based on continuance of the Plan and their present rates of compensation until normal retirement age (as defined), are $4,812 and $5,051, respectively.

(2) Including directors' fees, but excluding remuneration of $19,459 paid to the firm of Jones, Day, Cockley & Reavis, of which Frank E. Joseph (a director during the past fiscal year) is a member, for legal services rendered to the Corporation during the fiscal year ended June 30, 1951.

The amounts of remuneration paid to Adolph Weinberger and C. W. Evans for the past fiscal year exceeded the amounts paid for the preceding fiscal year by $5,000 and $5,045.27, respectively, and the amount paid to all directors and officers as a group exceeded the amount paid for the preceding fiscal year by $34,312.26, of which $24,787.76 represented profit-sharing payments.

On October 18, 1950 the Corporation granted options to officers and certain key employees for the purchase of unissued shares of its Common Stock, the following officers receiving such options in the amounts indicated: Adolph Weinberger, 1,000 shares; C. W. Evans, 1,000 shares; Henry Gray, 1,000 shares; M. M. Neubauer, 500 shares; L. C. Douglass, 500 shares; and Louis Berwitt, 300 shares. The option price in each case was fixed at $10.75 a share, representing the market value (based on the last previous reported sale) on the date on which the options were granted. The options expire on October 18, 1955, subject to earlier termination in the event of death or cessation of employment, and are non-assignable. The options were granted for the purpose of providing an additional incentive to the officers and other key employees responsible for the growth and financial success of the Corporation. Mr. Weinberger has exercised his option by purchasing 1,000 shares of Common Stock at the option price of $10.75 a share, the market value at the time of exercise being $10.88 a share.

Proposed Amendment to Articles of Incorporation

The Corporation presently has 150,000 authorized shares of Common Stock without par value, of which 140,150 shares are outstanding. It is proposed to amend Article Fourth of the Corporation's Articles of Incorporation so as to change each share of Common Stock without par value into one share of Common Stock having a par value of $1, the purpose of this change being to obtain the benefit of the lower tax rates applicable under present laws to the issuance and transfer of such par value stock. When the change becomes effective, certificates for the Corporation's outstanding shares without par value will be exchangeable for appropriate new certificates representing the $1 par value shares.

The proposed amendment will have the effect of reducing the stated capital applicable to the outstanding shares of Common Stock from $1,756,775 to $140,150, the aggregate par value of such shares. The difference will be transferred to capital surplus, but the Corporation has no plans for any use or disposition of the additional capital surplus which will result from such transfer.

As a matter incidental to the foregoing amendment, it is proposed to eliminate from the Articles of Incorporation the provision authorizing the Board of Directors to fix the consideration to be received for the issuance of shares without par value, since such provision is not applicable to shares having a par value.

The proposed amendment requires the affirmative vote of the holders of two-thirds of the outstanding shares of the Common Stock of the Corporation, and will become effective after such approval upon the filing of Amended Articles of Incorporation in the office of the Secretary of State of Ohio.

Voting Rights — Proxies

There are outstanding 140,150 shares of Common Stock entitled to be voted at the meeting.

Shareholders have cumulative voting rights in the election of directors, provided 24 hours notice in writing is given by any shareholder to the President or a Vice President or the Secretary of the Corporation that he desires that voting at such election be cumulative, and an announcement of the giving of such notice is made upon the convening of the meeting.

The enclosed proxy is being solicited by the management and the entire cost of such solicitation will be paid by the Corporation.

Your proxy will be voted if it is valid and you do not revoke it. If you specify on the proxy how the shares represented by it shall be voted on the proposal to amend the Articles of Incorporation, the shares will be voted as you specify.

Unless you provide otherwise in your proxy, you may revoke it by giving notice to the Corporation in writing or in open meeting. Such revocation will not affect any vote previously taken. A subsequent proxy will be deemed to constitute a revocation of any earlier proxy.

LOUIS BERWITT, Secretary

Cleveland, Ohio
September 10, 1951